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Event Update - IMF Releases April-16 World Economic Outlook

April-2016

The latest IMF World Economic Outlook (WEO) slashed world growth rate for the third consecutive time for 2016 by 20 bps to 3.2% from 3.4% projected in January-16. *The reductions largely reflected weakness across the board with all the major economies and regions experiencing growth challenges and a fragile recovery in the near term.* ***Nevertheless, IMF expects recovery to strengthen starting from 2017, although growth expectation was also cut for the year marginally by 10 bps to 3.5%.*** *Meanwhile, global economic growth in 2015 stood at the lowest point since the financial crisis recorded at 3.1% as growth in Emerging Market and Developing Economies, albeit at its lowest point since the financial crisis, continued to outpace growth in Advanced Economies.*

In the MENA region, Saudi Arabia was the only country in the region which did not had its growth slashed in the outlook. *Nevertheless, the Kingdom is also expected to grow at the slowest pace in the GCC during 2016 at 1.2% and at a marginally faster pace of 1.9% in 2017 (second only to Oman's 1.7% expected growth for the year) owing to its excessive dependence on oil revenues. On the other hand,* ***Qatar is expected to be the fastest growing economy in the group for both 2016 and 2017 (3.4% growth for both the years) as the country prepares to host the Fifa World Cup in 2022. Another bright spot in the GCC is Kuwait, which is expected to grow at a much faster pace of 2.4% and 2.6% in 2016 and 2017, respectively, after seeing marginal growth rates in 2015 and a flat economy in 2014. According to IMF, the GCC region is now expected to report a decline of 1.8% in 2016 as compared to a decline of 3.3% in 2015 and gradually pick up to more than 2% over the medium term.***

Meanwhile, global trade volume of goods and services declined to its lowest level in three years as the gap between imports and exports widened to unprecedented levels for both Advanced Economies as well as Emerging Market and Developing Economies. Moreover, the index of commodity prices for both fuel and non-fuel commodities saw the steepest recorded decline in 2015 due to the weakness in commodity markets over the past few years. *The decline in these indices are expected to continue in 2016, although at a slower pace, and is expected to turn positive starting from 2017 for the commodity fuel and the overall commodity price index, whereas the non-fuel commodity index is expected to turn positive only from 2019.*

IMF Estimates	Real GDP			Consumer Prices			Current Account Balance		
		Projections			Projections			Projections	
	2015	2016 F	2017 F	2015	2016 F	2017 F	2015	2016 F	2017 F
World	**3.1%**	**3.2%**	**3.5%**	**2.8%**	**2.8%**	**3.0%**	-	-	-
MENA	**2.3%**	**2.9%**	**3.3%**	**5.9%**	**5.5%**	**4.7%**	-3.9%	-7.5%	-5.6%
Oil Exporters	**1.9%**	**2.9%**	**3.1%**	**5.2%**	**4.9%**	**3.9%**	-3.1%	-8.0%	-5.6%
Saudi Arabia	3.4%	1.2%	1.9%	2.2%	3.8%	1.0%	-6.3%	-10.2%	-6.1%
Iran	0.0%	4.0%	3.7%	12.0%	8.9%	8.2%	0.4%	-0.8%	0.0%
UAE	3.9%	2.4%	2.6%	4.1%	3.2%	2.7%	3.9%	-1.0%	0.1%
Algeria	3.7%	3.4%	2.9%	4.8%	4.3%	4.0%	-15.7%	-17.1%	-16.2%
Iraq	2.4%	7.2%	3.3%	1.4%	2.0%	2.0%	-6.4%	-14.4%	-11.0%
Qatar	3.3%	3.4%	3.4%	1.7%	2.4%	2.7%	4.9%	-5.0%	-4.9%
Kuwait	0.9%	2.4%	2.6%	3.4%	3.4%	3.5%	11.5%	-1.0%	3.3%
Oil Importers	**3.8%**	**3.5%**	**4.2%**	**6.7%**	**5.8%**	**6.5%**	-4.6%	-4.5%	-4.6%
Egypt	4.2%	3.3%	4.3%	11.0%	9.6%	9.5%	-3.7%	-5.3%	-5.3%
Morocco	4.5%	2.3%	4.1%	1.6%	1.5%	2.0%	-1.4%	0.4%	0.1%
Sudan	3.5%	3.7%	4.0%	16.9%	13.0%	12.3%	-7.7%	-6.3%	-5.5%
Tunisia	0.8%	2.0%	3.0%	4.9%	4.0%	3.9%	-8.9%	-7.7%	-7.0%
Lebanon	1.0%	1.0%	2.0%	-3.7%	-0.7%	2.0%	-25.0%	-21.3%	-21.2%
Jordan	2.5%	3.2%	3.7%	-0.9%	0.2%	2.1%	-8.8%	-6.4%	-5.6%

Source: IMF WEO April 2016

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MENA to see specific pockets of strong growth...

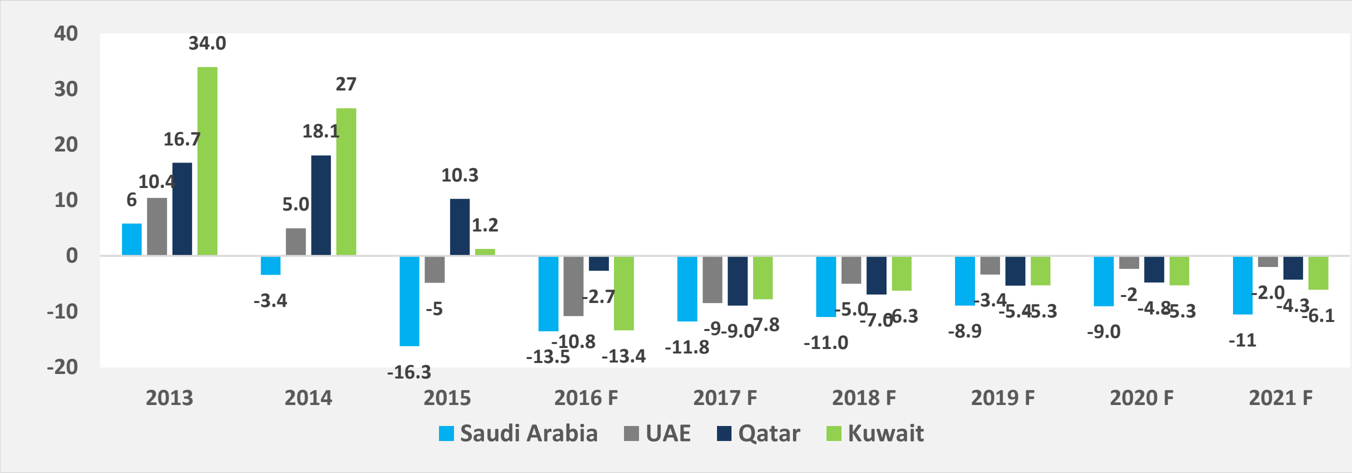
Real GDP growth for the MENA region was left unchanged for 2015 from the previous forecast and was recorded at 2.3% slightly below previous year's growth rates. Growth for the current year and for 2017 is expected to be much higher at 3.8% and 4.1% although these growth figures were lowered by 90 bps and 80 bps as compared to expectations during January-16. Growth is expected to be primarily driven by higher growth rates in Iraq and Iran owing to the low baseline effect. Historical growth in these countries remained subdued over the past few years due to political reasons and the future growth is expected to be driven by higher oil output as well as economic development in other sectors. Nevertheless, MENA economic growth is not expected to reach the pre-financial crisis level as per the forecasts primarily due to the gradual recovery in oil prices.

The IMF's forecast of oil price recovery is expected to be much more stretched as compared to the forecasts by oil producers and industry watchers. According to the IMF, oil prices in 2016 is expected to average at USD 35/b and rise gradually to an average of USD 41/b in 2017. The growth trend is expected to be even more flattish for future years as reflected in the forecasted average of USD 50/b achievable only by 2021. Such depressed oil price level is expected to exert additional fiscal and financial stress in key oil-exporting countries (including oil exporters in the GCC and Russia) arising out of fall in oil export revenues. This will ultimately impact investment, public expenditure and tighter financial conditions in these countries requiring them to undertake largescale fiscal adjustments. Moreover, banking liquidity has already taken a hit in the GCC and further decline would put additional pressure on economic activity in the region.

IMF Estimates	Previous Estimates Oct-15 / Jan-16			Revisions by IMF			Current Estimates Apr-16		
Real GDP Growth	**2015**	**2016 F**	**2017 F**	**2015**	**2016 F**	**2017 F**	**2015**	**2016 F**	**2017 F**
Percentage									
Saudi Arabia	3.4%	1.2%	1.9%	0.0%	0.0%	0.0%	3.4%	1.2%	1.9%
United Arab Emirates	3.0%	3.1%	3.3%	0.9%	-0.7%	-0.7%	3.9%	2.4%	2.6%
Qatar	4.7%	4.9%	4.2%	-1.4%	-1.5%	-0.8%	3.3%	3.4%	3.4%
Kuwait	1.2%	2.5%	2.7%	-0.3%	-0.1%	-0.1%	0.9%	2.4%	2.6%
Oman	4.4%	2.8%	2.0%	-0.3%	0.0%	-0.3%	4.1%	1.8%	1.7%
Bahrain	3.4%	3.2%	2.8%	-0.2%	-1.1%	-0.8%	3.2%	2.2%	2.0%
Real GDP Growth for MENA	**2.3%**	**3.8%**	**4.1%**	**0.0%**	**-0.9%**	**-0.8%**	**2.3%**	**2.9%**	**3.3%**
Inflation, Avg. CPI	**2015**	**2016 F**	**2017 F**	**2015**	**2016 F**	**2017 F**	**2015**	**2016 F**	**2017 F**
Percentage									
Saudi Arabia	2.1%	2.3%	2.9%	0.0%	1.4%	-1.9%	2.2%	3.8%	1.0%
United Arab Emirates	3.7%	3.0%	2.7%	0.4%	0.2%	0.0%	4.1%	3.2%	2.7%
Qatar	1.6%	2.3%	2.9%	0.1%	0.1%	-0.2%	1.7%	2.4%	2.7%
Kuwait	3.3%	3.3%	3.5%	0.1%	0.1%	0.0%	3.4%	3.4%	3.5%
Oman	0.4%	2.0%	2.9%	-0.2%	-1.7%	-0.2%	0.2%	0.3%	2.8%
Bahrain	2.0%	2.1%	2.3%	-0.2%	1.1%	0.1%	1.8%	3.2%	2.3%
Inflation in MENA	**6.4%**	**5.8%**	**5.1%**	**-0.5%**	**-0.3%**	**-0.4%**	**5.9%**	**5.5%**	**4.7%**
Current account balance	**2015**	**2016 F**	**2017 F**	**2015**	**2016 F**	**2017 F**	**2015**	**2016 F**	**2017 F**
Percentage of GDP									
Saudi Arabia	-3.5%	-4.7%	-1.9%	-2.8%	-5.5%	-4.2%	-6.4%	-10.2%	-6.1%
United Arab Emirates	2.9%	3.1%	4.8%	1.0%	-4.1%	-4.7%	3.9%	-1.0%	0.1%
Qatar	5.0%	-4.5%	-2.7%	-0.1%	-0.6%	-2.1%	4.9%	-5.0%	-4.9%
Kuwait	9.3%	7.0%	8.8%	2.2%	-8.0%	-5.5%	11.5%	-1.0%	3.3%
Oman	-16.9%	-24.3%	-22.4%	4.3%	-0.8%	2.8%	-12.6%	-25.1%	-19.6%
Bahrain	-4.8%	-5.9%	-5.4%	1.5%	-0.9%	-0.4%	-3.2%	-6.7%	-5.8%
CA Balance % of GDP for MENA	**-4.0%**	**-4.7%**	**-2.7%**	**0.1%**	**-2.8%**	**-3.0%**	**-3.9%**	**-7.5%**	**-5.63%**

Source: IMF WEO April 2016

Government Surplus / Deficit (Percent of GDP)



Source: IMF WEO April-2016, KAMCO Research

No end in sight for budget deficit for the GCC economies...

The decline in oil prices has affected total oil revenues of all of the GCC economies despite oil production being at the highest historical level for the OPEC members. According to IMF, the GCC region is now expected to report a decline of 1.8% in 2016 as compared to a decline of 3.3% in 2015 and gradually pick up to more than 2% over the medium term.

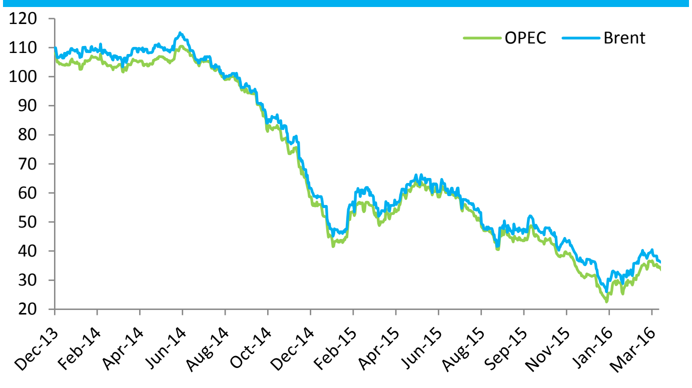
Saudi Arabia is expected to be the most severely affected due to low oil prices and is expected to top the fiscal deficit chart for each of the forecasted years (2016F - 2021F) for the key GCC economies. However, deficit as a percentage of GDP is expected to have peaked in 2015 at -16.3% or SAR 399 Bn and will gradually recover to -8.9% by the end of 2019 (SAR 248.5 Bn) only to plunge again to -11% by 2021 (SAR 322.5 Bn). On the other hand, after posting surpluses since the year 2000, Qatar is expected to report the smallest deficit of -2.7% of GDP in 2016 (QAR 16.8 Bn) that would gradually recover to 4.3% of GDP by 2021. Even well diversified GCC economy like the UAE is expected to post deficits during the forecast period after reporting a deficit of –5% of GDP during 2015 (AED 61.9 Bn).

Further efforts required by oil exporters amid diminishing fiscal buffers

GCC countries had already begun large scale optimization of developmental projects by prioritizing only key projects that are aimed at increasing revenues for the country. However, with further stress expected on the fiscal growth front, oil exporters would be required to slash spending even more aggressively than previously envisaged. Moreover, the tightening of global financial conditions and the risk of further sovereign rating downgrades could make it even more difficult for these countries to raise capital to fund projects.

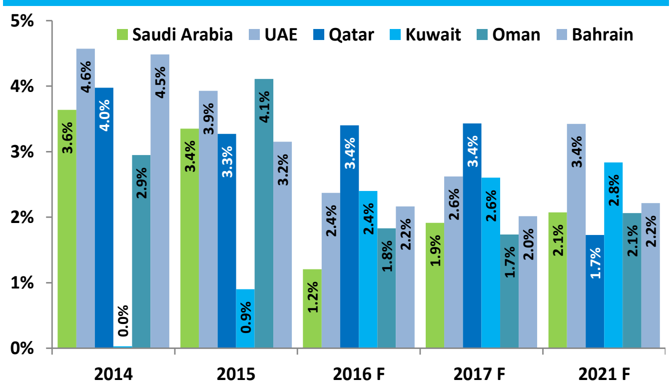
Nevertheless, KAMCO Research expects that there are multiple levers still left with the big GCC economies that could help them stretch and avoid any extreme fiscal conditions. These includes implementation of a tax system that is already in place to be implemented in 2018. Furthermore, the existing credit rating of most of the GCC countries coupled with sizable sovereign wealth fund as well as low debt-to-GDP ratio could enable them to raise debt at favorable rates. Furthermore, most of the public service companies are owned by the government that can be privatized easily to fund other projects.

Oil Prices Movement (USD/B)



Source: Bloomberg

GDP Growth Rates in the GCC



Source: IMF WEO April-2016, KAMCO Research

Global impact of the ongoing transition in China

As one of the largest economies in the world and one of the biggest commodity consumers, the ongoing transformation of China into a more market-based economy via a new growth model is fundamentally uneven and challenging. The country has grown at double digit rate over the past several years resulting in rapid credit growth and investment and now sees a more sustainable growth of just under 7%. However, due to declining profitability, corporates in China are unable to meet debt obligations resulting in rising NPLs with local banks. Moreover, limited progress on key reforms, and ineffective policy initiatives to tackle market volatility is making it more difficult for the state to bring about stability in financial markets in the country. Further deterioration of the aforementioned factors could result in strong international spillovers through trade, commodity prices, confidence, financial markets and currency valuations.

A cautious story for global growth going forward...

Key risks, as highlighted by IMF, includes the looming return of a financial crisis amid declining confidence and weakening demand, especially investment demand in commodity export based countries. IMF highlighted the fact that the ongoing transition of China into a more sustainable growth economy is beneficial for China as well as the world, but the bumps along the transition process could have significant spillover effects on emerging markets and developing economies.

What is the way out…

According to the IMF, in order to deal with the ongoing extended slowdown, monetary policy should remain accommodative in the face of deflationary pressures and should include provisions for additional unconventional measures if needed including other policies that directly boost supply and demand.

A number of countries require additional infrastructure investment so a low interest rate environment should drive the investments. Moreover, structural reforms in product and labor markets could result in higher output, even in the short term, and especially if bundled with fiscal support. Financial reforms by way of modifying the taxation system and support to the banking sector in resolution of NPLs could have immediate and lasting impact.

IMF suggests that countries should collaborate in order to deal with future downside risks by having a contingent plan and by formulating more effective demand and supply-side policies targeting positive output spillovers across countries. They should come together to build a resilient international monetary and financial system by strengthening the global regulatory regime.

KAMCO Research believes that a number of suggestions mentioned by the IMF are already underway by the GCC countries as they working more closely in formulating taxation policies, streamlining fiscal policies and collaborating for investments in key infrastructure facilities like the metro system and utilities system. Each individual country in the group is also working on enhancing the functioning of financial markets by setting up appropriate regulatory bodies as well as by increasing the depth of the market by offering a number of new products to local and international investors. The regulators are now more open to foreign investors as seen in the opening up of the market by Saudi Arabia, UAE and Qatar and other making slow by concerted efforts in this direction.

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